GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1941
ANSWERED ON:24.08.2007
DEBT BURDEN OF STATES
Owaisi Shri Asaduddin

Will the Minister of FINANCE be pleased to state:

(a) whether Union Government has received proposals from some State Governments for rescheduling of their loans and reduction of rates of interests;

(b) if so, the details thereof and action taken thereon ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): NDC Sub-Committee on Debt Outstanding of the States against National Small Savings Funds (NSSF) was set up by National Development Council (NDC) to examine issues related to the debt burden of the States and debt relief. During the meetings of the Sub-Committee held between October, 2005 to November, 2006, State Governments of Tamil Nadu, Andhra Pradesh and Chhattisgarh had, inter-alia, requested for rescheduling of outstanding NSSF loans and reduction in the rate of interest. Keeping in view all relevant considerations including the contentions of the State Governments for relief on outstanding NSSF loans and considering the financial position of NSSF, the Sub-Committee inter-alia made the following recommendations unanimously:-

(i) The interest rates on loans taken by State Governments from NSSF from 1999-2000 to 2002-03 will be reset at 10.5% with effect from 1st April, 2007. The interest rate on these old loans will be reviewed if the interest rate on the current loans is reduced or after 3 years, whichever is earlier.

(ii) The interest rate on current NSSF loans will continue at 9.5%.

(iii) Requests of State Governments for additional open market borrowing to enable them to repay non-NSSF loans will be considered on a case to case basis.

(iv) Requests of State Governments for prepayment of NSSF loans contracted up to 2002-03 will also be considered on a case to case basis within the approved market borrowing ceilings.

2 . As a follow up of the aforesaid recommendations, requests were received during January and March, 2007 from the State Governments of Madhya Pradesh, Orissa and Delhi for pre-payment of NSSF Loans, contracted up to 2002-03. Later on, Govt. of Madhya Pradesh withdrew its request for prepayment of NSSF loans. The State Governments of Orissa and Delhi were allowed to pre-pay their NSSF loans, carrying interest rate of 10.5% per annum, subject to the following conditions :-

(i) The pre-payment in 2007-08 will be limited to 10% of the total outstanding NSSF debt for the period 1999-2000 to 2002-03.

(ii) The 10% ceiling in 2007-08 will be conditional upon the State Government financing it within the approved market borrowing ceiling and / or the available cash surplus with the concerned State Government.